

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 AGR-10 CEA-01 CIAE-00

COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

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E.O. 11652 N/A

TAGS: EFIN, EIND, EINV, UR

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

1. WHILE FOREIGN INVESTMENT CLIMATE IN USSR HAS UNDERGONE LITTLE CHANGE DURING PAST YEAR, NARRATIVE STATEMENT PREPARED SEVERAL YEARS AGO HAS REQUIRED REVISION. EMBASSY RECOMMENDS FOLLOWING TEXT BE SUBSTITUTED FOR NARRATIVE PUBLISHED IN CURRENT FACT BOOK.

2. BEGIN TEXT: FOREIGN INVESTMENT AS USUALLY UNDERSTOOD IS NON-EXISTENT IN THE USSR. IN ACCORDANCE WITH SOVIET LAWS PROVIDING THAT ALL MEANS OF PRODUCTION ARE THE PROPERTY OF THE STATE, EVERY FORM OF BUSINESS, PLANT, SHOP AND SERVICE FALLS WITHIN THE PURVIEW OF A MINISTRY RESPONSIBLE FOR ALL MAJOR OPERATIONAL DECISIONS; LITTLE AUTHORITY IS DELEGATED TO THE MANAGER OF AN INDIVIDUAL ENTERPRISE. MOST CONTACTS BY FOREIGN BUSINESSMEN, THEREFORE, ARE WITH THE APPROPRIATE MINISTRY OR FOREIGN TRADING ORGANIZATION RATHER THAN WITH SPECIFIC INDUSTRIAL OR SERVICE ORGANIZATIONS DIRECTLY. WITHIN THIS FRAMEWORK OFFICIAL SOVIET POLICY SEEKS SUCH SPECIAL TYPES OF COMMERCIAL TRANSACTION AS JOINT DEVELOPMENT AND PRODUCTION SHARING PROJECTS. THE USSR IS PARTICULARLY INTERESTED IN ACQUIRING LARGE INDUSTRIAL PLANTS AND

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PRODUCTION PROCESSES EMPLOYING ADVANCED TECHNOLOGY. FOREIGN

PARTICIPATION IN RESOURCE DEVELOPMENT IS ALSO SOUGHT (ESPECIALLY FOR EXPLOITATION OF OIL, GAS, MINERAL AND FOREST RESOURCES) AS IS FOREIGN INVOLVEMENT IN THE EXPANSION OF TOURIST SERVICES. AT PRESENT, HOWEVER, NO FOREIGN EQUITY OR MANAGEMENT PARTICIPATION IS PERMITTED.

3. INCREASINGLY THE SOVIET UNION HAS DEMONSTRATED A PREFERENCE FOR PRODUCTION SHARING ARRANGEMENTS OVER PURCHASES OF COMPLETE PLANTS ON A "TURNKEY" BASIS. AS REPAYMENT TO THE FOREIGN PARTNER IS MADE IN THE FORM OF A SPECIFIED SHARE OF OUTPUT OVER A FIXED TERM, SUCH A PROJECT IS ESSENTIALLY SELF-FINANCING. THE FOREIGN PARTNER PROVIDES SPECIALIZED MACHINERY, EQUIPMENT AND EXPERTISE WHILE THE SOVIET CONTRIBUTION INCLUDES LABOR AND LOCAL PROCUREMENT OF CONSTRUCTION MATERIALS, INTERMEDIATE INPUTS AND FEEDSTOCKS. ESPECIALLY IN LARGE SCALE PROJECTS, SUCH AS THE FIAT TOL'YATTI AUTO PLANT OR ELEMENTS OF THE KAMA RIVER TRUCK PLANT, THE FOREIGN PARTICIPANTS MAY ALSO PROVIDE SOME SKILLED LABOR TOGETHER WITH MANAGEMENT EXPERTS, BOTH TO TRAIN THE SOVIET EMPLOYEES WHO WILL OPERATE THE ENTERPRISE AND TO ENSURE QUALITY CONTROL. THE PRESENCE OF FOREIGN EXPERTS DURING THE INITIAL PERIOD OF PLANT OPERATION IS DEEMED ESSENTIAL IF THE FOREIGN PARTNER IS TO RECEIVE A SHARE OF OUTPUT OR IF THE PRODUCT IS TO BE MARKETED IN THIRD COUNTRIES. FOREIGNERS ARE, HOWEVER, EXCLUDED FROM ANY MANAGEMENT ROLE IN THE NORMAL OPERATION OF SUCH ENTERPRISES.

4. INDUSTRIAL DEVELOPMENT AND EXPANSION IN THE USSR TAKES PLACE WITHIN THE STRUCTURE OF PRIORITIES ESTABLISHED IN COMPREHENSIVE FIVE-YEAR ECONOMIC PLANS. CURRENTLY, US FIRMS ARE ENGAGED CHIEFLY IN THE SALE OF MACHINERY AND EQUIPMENT FOR VARIOUS MANUFACTURING FACILITIES AND IN NEGOTIATING CONTRACTS FOR THE CONSTRUCTION OF CHEMICAL FERTILIZER PLANTS WITH THE NECESSARY INFRASTRUCTURE. AN ACETIC ACID PLANT IS BEING CONSTRUCTED WITH U.S. PARTICIPATION, AND OTHER PROPOSALS ARE UNDER DISCUSSION. THESE INCLUDE THE EXPLOITATION OF SUCH NATURAL RESOURCES AS NON-FERROUS MINERALS, NATURAL GAS AND TIMBER.

5. AT PRESENT 16 U.S. COMMERCIAL FIRMS AND THREE U.S. BANKS ARE ACCREDITED TO MAINTAIN PERMANENT OFFICES IN MOSCOW. SEVERAL OTHERS HAVE APPLIED FOR SIMILAR ACCREDITATION THROUGH SUITABLE SOVIET GOVERNMENT OFFICES. END TEXT
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6. INVESTMENT STATISTICS: ANSWER IS "NONE" FOR EACH ENTRY IN ALL THREE CATEGORIES SPECIFIED PARA 7 REFTTEL.
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